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**BRIAN C. McNEIL**  
Executive Director  
Direct Line: (602) 542-4143  
Fax: (602) 542-0765  
E-mail: kmayes@azcc.gov

January 3, 2006

Mr. James Pignatelli,  
CEO and President  
Tucson Electric Power  
1 South Church Avenue  
Mail Stop UE181  
Tucson 85701

Re: Allowing renewable energy credits or "green tags" generated by customers who participate in Environmental Portfolio Standard-funded buy-down programs to remain with the customers; Docket No. RE-00000C-05-0030

Dear Mr. Pignatelli:

In preparing for our upcoming vote on the new Environmental Portfolio Standard I have begun to explore in greater depth the manner in which our state's electric utilities treat renewable energy credits – the so-called "green tags" or RECs derived from EPS-mandated programs.

According to the terms of the contract that Tucson Electric Power offers to customers who apply for the EPS-funded rebate for solar systems, TEP secures the rights to all environmental credits that are attributable to or generated by that customer's solar system, above and beyond the credits needed to meet our EPS requirement.<sup>1</sup> It appears that TEP receives these "green tags" without compensating the customer for them, and because the rebate program is funded by ratepayer dollars derived from the EPS surcharge, it appears that utilities are collecting these "green tags" essentially at no cost to themselves.

In light of the fact that distributed solar projects are paid for by EPS funds (ratepayer funded) and by the customers who front the rest of the cost of purchasing the system, it would seem that these "green tags" are being underwritten entirely by the utility's customers. This begs the question whether customers should own the "green tags" associated with the systems they are funding, rather than the utility.

It has also come to my attention that allowing customers to keep these "green tags" rather than requiring that they sign them away to the utility will likely encourage the development of renewable projects, particularly commercial-scale systems. One prospective renewable energy developer recently told me that businesses that install large-scale solar projects on their rooftops

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<sup>1</sup> See "Greenwatts/Sunshare Hardware Buydown Options." According to the terms of this agreement, in order to participate in the buy-down program, customers must relinquish their rights to all environmental and regulatory credits associated with the electricity generated by the solar panels.

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can sometimes receive tens of thousands of dollars for the green tags associated with the projects by trading them in newly-emerging renewable energy markets, both in the U.S. and Europe. The ability to retain and trade RECs helps to make renewable energy projects more commercially viable and it seems to me over time would help to develop a more fulsome marketplace for green tags as more individual homeowners and businesses become involved in trading. And while renewable energy markets were once only a distant notion, they are now beginning to emerge as reality. Clean Energy marketers such as the Environmental Resources Trust and TerraPass Inc. have cropped up to handle both the buy-side and sell-side of "green tags".

As we finish the EPS rule, and as we begin to develop a Uniform Credit Purchase Program, it would benefit my deliberations if you would comment on these issues and answer a few additional questions:

1. How many RECs or other trade-able renewable attributes has TEP collected from its EPS-mandated projects since the onset of the EPS and how does the company aggregate or account for them? Please provide separate figures for utility-owned projects such as the TEP Springerville facility, and the TEP Credit Purchase Program (distributed systems).
2. Has the Company sold these RECs and if so in which markets? Has the utility used them in some other fashion, such as applying them toward an emissions reduction program? If so, is there a positive financial implication for the utility associated with being able to apply the "green tags" in this manner?
3. How much money has the Company made from RECs or other renewable or regulatory attributes derived from the EPS program and how was that money used? Was it reapplied to the EPS program or reported as profit?
4. Would the utility be opposed to allowing all RECs and green tags that could be sold at market to remain with customers?
5. If the utility is not trading "green tags", has the company explored this as an option?

Thank you for your prompt attention to this matter and for your continued support of renewable energy in Arizona.

Sincerely,



Kris Mayes  
Commissioner

Cc: Chairman Jeff Hatch-Miller  
Commissioner William A. Mundell  
Commissioner Marc Spitzer  
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